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Charitable Contributions for Haiti's Earthquake Victims

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Summary

On January 12, 2010, a magnitude 7.0 earthquake struck Haiti. As of January 25, 2010, the death toll was estimated to exceed 150,000. The earthquake and resulting aftershocks affected approximately 3 million people and caused significant damage to buildings and infrastructure. The earthquake has left an estimated 1 million Haitians homeless.

On January 22, 2010, President Obama signed into law the Haiti Assistance Income Tax Incentive Act (HAITI Act; P.L. 111-126). This legislation accelerates income tax benefits for charitable cash contributions for the relief of earthquake victims. Specifically, the legislation allows taxpayers making charitable contributions of cash made to organizations providing aid to earthquake victims after January 11, 2010, and before March 1, 2010, to take the associated charitable deduction on their 2009 income tax returns. The HAITI Act (H.R. 4462) was introduced in the House on January 19, 2010, and passed by a voice vote on January 20, 2010. The Senate had introduced companion legislation (S. 2936) on January 20, 2010, but passed the identical House legislation H.R. 4462 on January 21, 2010. Provisions in the HAITI Act are similar to those adopted under P.L. 109-1 following the 2004 Indian Ocean tsunami. The Joint Committee on Taxation (JCT) estimates that the HAITI Act would result in revenue losses of approximately $2 million over the 10-year budget window spanning FY2010 through FY2019.

Under current law, charitable contributions to 501(c)(3) charitable organizations from individuals, corporations, and estates and trusts are tax deductible in the year they are made. Individuals can deduct up to 50% of their adjusted gross income (AGI), phased-out for higher income individuals. Corporations can deduct up to 10% of their taxable income. Individuals and corporations can carry forward any unclaimed charitable deductions for up to five years. Total charitable giving in 2008 was $307.65 billion.

In the past, Congress has passed legislation to encourage charitable giving following natural disasters. Following the 2004 Indian Ocean tsunami, legislation was passed that allowed taxpayers making charitable contributions to aid tsunami victims in January 2005 to take the charitable deduction on their 2004 tax return. This provision is similar to the one enacted under the HAITI Act. In September 2005, following Hurricane Katrina, individual and corporate giving limits were suspended. The rules surrounding charitable contributions of food inventory and books were also relaxed to encourage in-kind giving.

The HAITI Act, like other tax policies, can be evaluated along the dimensions of efficiency and equity. Efficiency is greatest when the policy's marginal impact, the giving induced by the program, is large relative to the policy's inframarginal impact, the benefits given to those whose behavior was not directly caused by the tax policy. Using this framework, the HAITI Act is unlikely to be economically efficient. In general, tax benefits for charitable giving do not appear to significantly increase donations. Furthermore, tax deductions violate principles of vertical equity in that the benefits of tax deductions accrue disproportionately to higher income groups and provide larger benefits to those with a greater ability to pay.

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On January 12, 2010, a magnitude 7.0 earthquake struck Haiti. As of January 25, 2010, the death toll was estimated to exceed 150,000. The earthquake and resulting aftershocks affected approximately 3 million people and caused significant damage to buildings and infrastructure.[1] The earthquake has left an estimated 1 million Haitians homeless. In the United States, legislation has been enacted with the goal of promoting charitable donations for the earthquake victims in Haiti. Similar action was taken following the 2004 Indian Ocean tsunami and the 2005 Gulf Coast Hurricanes, when Congress enacted legislation to promote charitable giving to organizations providing aid to victims of these natural disasters.

On January 22, 2010, President Obama signed into law the Haiti Assistance Income Tax Incentive Act (HAITI Act; P.L. 111-126). This legislation accelerates income tax benefits for charitable cash contributions for the relief of earthquake victims. Specifically, the legislation allows taxpayers making charitable contributions of cash made to organizations providing aid to earthquake victims after January 11, 2010, and before March 1, 2010, to take the associated charitable deduction on their 2009 income tax returns. The HAITI Act (H.R. 4462) was introduced in the House on January 19, 2010, and passed by a voice vote on January 20, 2010. The Senate had introduced companion legislation (S. 2936) on January 20, 2010, but passed the identical House legislation H.R. 4462 on January 21, 2010. Provisions in the HAITI Act are similar to those adopted under P.L. 109-1 following the 2004 Indian Ocean tsunami. The Joint Committee on Taxation (JCT) estimates that the HAITI Act would result in revenue losses of approximately $2 million over the 10-year budget window spanning FY2010 through FY2019.

In the days following the earthquake in Haiti, many donors made $10 donations to earthquake victims via text message. The HAITI Act clarifies recordkeeping requirements for contributions by stating that a telephone bill satisfies the recordkeeping requirement so long as the bill states the name of the donee organization, the date of the contribution, and the amount of the contribution.

Senator Max Baucus, in a January 20, 2010, floor statement, stated "This is simple legislation that would make a big impact. It will make it a little easier for Americans to contribute to the victims of the Haiti disaster."[2] Senator Baucus went on to acknowledge that most Americans want to contribute in absence of this legislation, but noted that the HAITI Act would provide an additional incentive to give.

On January 20, 2010, Senators Charles E. Schumer and Kirsten Gillibrand introduced separate legislation in the Senate to encourage charitable donations to the earthquake victims of Haiti (S. 2937). This legislation, if enacted would suspend the individual and corporate charitable giving tax deduction limitations for cash donations directed toward Haitian earthquake victims. Similar provisions were enacted following Hurricane Katrina in 2005, discussed in further detail below. Additionally, S. 2937 would extend the enhanced deduction for food inventory, that was allowed to expire at the end of 2009. The enhanced deduction for food inventory provision is also part of Tax Extenders Act of 2009 (H.R. 4213), which passed the House on December 9, 2009. The Senate has not taken up the Tax Extenders Act of 2009.[3]

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[1] Internal Revenue Service, "IRS Announces Qualified Disaster Treatment for Haiti," IR-2010-11, January 22, 2010.

[2] Committee on Finance, "Floor Statement of Senator Max Baucus (D-Mont.) Regarding Assistance Income Tax Incentive Act," press release, January 20, 2010, http://finance.senate.gov/press/Bpress/2010press/prb012010b.pdf.

[3] JCT estimates suggest that extending the enhanced deduction for charitable contributions food inventory through 2010 would result in $78 million in revenue losses. See U.S. Congress, Joint Committee on Taxation, *Estimated Revenue Effects of H.R. 4213, the "Tax Extenders Act of 2009",* committee print, 111th Cong., 1st sess., December 7, 2009, JCX-59-09.

Current Law

Under current law, charitable contributions from individuals, corporations, and estates and trusts are tax deductible in the year they are made. Tax-exempt 501(c)(3) organizations, which include religious, educational, social welfare, health, international, and environmental organizations, are eligible to receive tax deductible charitable contributions. Contributions made to foreign agencies are generally not deductible.[4]

Individuals may claim deductions up to 50% of their adjusted gross income for qualified contributions to 501(c)(3) charitable organizations.[5] Itemized deductions are phased-out for high income individuals.[6] Individuals may carry forward unused charitable deductions for up to five years. In order to satisfy recordkeeping requirements, cash contributions can only be deducted if accompanied by a bank record (a cancelled check, bank statement, or credit card statement), a receipt, or payroll deduction documentation.

Corporations can deduct up to 10% of their taxable income for qualified charitable donations. Corporations can also carry forward unused charitable deductions for up to five years.

In 2008, individuals gave $229.28 billion. Corporations gave $14.5 billion, while bequests from estates totaled $22.66 billion in 2008. Grant making foundations gave $41.21 billion in 2008. Total charitable giving in 2008 was $307.65 billion.[7] Overall, giving between 2007 and 2008 fell by 5.7%, reflecting poor economic conditions.

Giving varies by the type of recipient organization. In 2008, religious organizations received 35% ($106.89 billion) of all gifts. Organizations focusing on human services received 9% ($25.88 billion) of all gifts, public society benefit organizations 8% ($23.88 billion), and organizations focusing on international affairs received 4% (13.30 billion) of all gifts in 2008.[8]

Table 1 provides the Joint Committee on Taxation's estimated tax revenue loss associated with the charitable contribution deduction for 2008 and 2009.[9] For 2008, tax expenditures for the charitable giving deduction were estimated to be $47 billion. Tax revenue loss from the charitable deduction is estimated to be $39 billion in 2009.[10] The reduction in estimated revenue loss is due to the weak economy.

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[4] Generally, charitable donations made to foreign charitable organizations cannot be deducted on U.S. income tax returns (tax treaties with Mexico, Canada, and Israel allow charitable contributions to Mexican, Canadian, and Israeli charities to be tax deductible under some circumstances). Deductions that are made to a U.S. organization that transfers funds to a foreign charitable organization are deductible so long as the U.S. organization maintains control over the use of the funds. For more information see http://www.irs.gov/publications/p54/ch05.html#en_US_publink100047565.

[5] Gifts of appreciated property are subject to a 30% limit. Gifts to foundations are further limited.

[6] In practice, the itemized deduction phase-out works as an income tax surcharge. Specifically, Δ(tax liability) = t * 0.01*(AGI – Threshold), where t is the marginal tax rate and the threshold is set annually under Pease. For details on the limitations on itemized deductions see CRS Report R40508, *Personal Exemption Phaseout (PEP) and Limitation on Itemized Deductions (Pease)*, by Maxim Shvedov, p.9.

[7] Giving USA Foundation, *Giving USA 2009: The Annual Report on Philanthropy for the Year 2008* (Indianapolis, IN: Giving USA Foundation, 2009), p. 210.

[8] CRS Report R40919, *An Overview of the Nonprofit and Charitable Sector*, by Molly F. Sherlock and Jane G. Gravelle.

[9] Tax revenue losses attributable to tax provisions that allow for special exclusions, exemptions, or deductions from income or provisions that provide special tax credits, preferential tax rates, of defer tax liability are called tax expenditures.

[10] The Joint Committee on Taxation had previously estimated 2009 charitable giving tax expenditures for individuals to result revenue losses of $46.2 billion and $3.2 billion of revenue losses for corporations, for total revenue losses of

Table 1. Tax Expenditure Estimates for the Charitable Giving Deduction

billions of dollars

Year	Individual	Corporate	Total
2008	44.3	3.1	47.4
2009	36.2	3.0	39.2

Source: U.S. Congress, Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2008 - 2012*, committee print, prepared by Joint Committee on Taxation, 111th Cong., 1st sess., October 31, 2008, JCS-2-08 and U.S. Congress, Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2009 - 2013*, committee print, prepared by Joint Committee on Taxation, 111th Cong., 2nd sess., January 11, 2010, JCS-1-10.

Natural Disasters and Charitable Contributions

The Indian Ocean Tsunami

Following the 2004 Indian Ocean tsunami, changes in the laws governing charitable giving were made in the act to accelerate the income tax benefits for charitable cash contributions for the relief of victims of the Indian Ocean tsunami (P.L. 109-1). The Indian Ocean tsunami struck on December 26, 2004. P.L. 109-1, enacted on January 7, 2005, allowed taxpayers that gave to nonprofit agencies aiding the victims of the tsunami in January 2005 to treat the donations as if they had been made during 2004, allowing such donations to be deducted by itemizing taxpayers on 2004 tax returns.[11] In the absence of this legislation, charitable deductions made in January 2005 would have been claimed on 2005 tax returns, filed in early 2006.

Under P.L. 109-1, only charitable contributions made in cash to charities providing aid to tsunami victims qualified for the accelerated deduction. Charitable contributions made in the form of property, capital assets, or in-kind contributions did not qualify for the accelerated deduction. Contributions made by credit card, check, or money order are generally considered cash contributions. The cash donation requirement was made to be consistent with requests made by organizations coordinating relief efforts that specifically requested monetary donations. Similar requests were made in January 2010 in response to the Haiti earthquake. Monetary donations reportedly reduce shipping costs associated with transporting relief items.[12]

Accelerating the deductibility of charitable contributions has quantifiable benefits. For example, assuming a marginal tax rate of 35%, a taxpayer who made a $1,000 contribution in January 2005 to a charity providing aid to tsunami victims, has a tax deduction for that gift worth $350 if claimed on the 2004 tax return. If the donor waits and claims the tax deduction on their 2005

$49.4 billion. The downward revision reflects the deterioration of the U.S. economy, where both income and asset values declined. See U.S. Congress, Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2008 - 2012*, committee print, prepared by Joint Committee on Taxation, 111th Cong., 1st sess., October 31, 2008, JCS-2-08.

[11] This measure was enacted quickly. After being proposed on January 4, 2005, the measure was introduced in both the House and the Senate on January 6, 2005, and signed into law by the President on January 7, 2005.

[12] Kurt Ritterpusch, "Congressional OK Expected for Bill to Extend 2004 Tsunami Relief Deductions," *The Daily Tax Report*, January 7, 2005, p. G1.

return, assuming an interest rate of 5%, the present value of the future tax deduction is \$333.[13] Hence, the taxpayer saved \$17 by claiming the charitable deduction on their 2004 tax return.[14]

Hurricane Katrina

On September 23, 2005, President George W. Bush signed into law the Katrina Emergency Tax Relief Act of 2005 (KETRA; P.L. 109-73). Congress's intent when passing this legislation was to provide temporary tax relief to assist the victims of Hurricane Katrina. Included in this legislation were a number of provisions designed to encourage charitable giving.

Under KETRA, individual and corporate giving limits were temporarily suspended. Prior to KETRA, individuals could not claim charitable deductions that exceeded 50% of their AGI, while corporations' deductions were limited to 10% of their taxable base. Following KETRA, individuals could deduct cash contributions made between August 27, 2005, and January 1, 2006, up to 100% of their AGI. Further, charitable contributions were exempt from the Pease limitations.[15] For corporations, the deduction limit for cash contributions used for Hurricane relief was increased to 100%.

Provisions enacted under KETRA expanded charitable deductions available for inventory made between August 28, 2005, and January 1, 2006. Specifically, the enhanced deduction for food inventory, previously only available to C corporations, was extended and made available to other businesses, specifically S corporations and partnerships. C corporations were also allowed to take an enhanced deduction for donations of book inventory to schools.[16]

Additional provisions under KETRA increased the mileage rate deduction for individuals using personal vehicles for charitable purposes, excluded mileage reimbursements received from hurricane relief charities from a volunteer's gross income, and allowed individuals providing free housing to displaced Katrina victims to claim a personal exemption for such persons. The mileage rate deduction and mileage reimbursement provisions were temporarily enacted for relief efforts between August 24, 2005, and January 1, 2007.[17]

Table 2 presents estimates of the revenue losses associated with the charitable provisions enacted under KETRA. The charitable provision with the largest estimated revenue loss in KETRA was the suspension of individual and corporate giving limits, with a 10-year revenue loss estimate of

[13] The present value, or value today, of a future payment is calculated by multiplying the value today by [1/(1+*r*)], where *r* is the interest rate.

[14] Givers do have the potential to reduce this loss in the absence of an accelerated deduction provision by adjusting their withholdings. Taxpayers that make large donations can reduce withholding estimated tax payments at the time of the donation rather than waiting until their taxes are filed to receive the benefit.

[15] For a discussion of the Pease limitations see CRS Report R40508, *Personal Exemption Phaseout (PEP) and Limitation on Itemized Deductions (Pease)*, by Maxim Shvedov.

[16] Both provisions, now part of the "tax extenders," were extended through 2007 by the Pension Protection Act of 2006 (P.L. 109-280) and through 2009 by the Emergency Economic Stabilization Act of 2008 (EESA; P.L. 110-343). Both provisions are now expired. If enacted, the Tax Extenders Act of 2009 (H.R. 4213) would extend these provisions through 2010. For more information see CRS Report RL32367, *Certain Temporary Tax Provisions Expiring in 2009 ("Extenders")*, by Pamela J. Jackson and Jennifer Teefy and CRS Report RL34608, *Tax Issues Relating to Charitable Contributions and Organizations*, by Jane G. Gravelle and Molly F. Sherlock.

[17] For further information see CRS Report R40434, *Charitable Standard Mileage Rate: Considerations for the 111th Congress*, by Nonna A. Noto.

$871 million. The total 10-year estimated revenue cost of the charitable provisions enacted under KETRA exceeds $1 billion.[18]

Table 2. Tax Expenditure Estimates for KETRA's Charitable Provisions

millions of dollars

Provision	2006	2006-2010	2006-2015
Suspend individual and corporate giving limits for qualified contributions	819	753	871
Extension of the enhanced deduction for food inventory	20	20	20
Extension of the enhanced deduction for book inventory	5	5	5
Increase standard mileage rate for charitable use of a vehicle	17	29	29
Mileage reimbursement to charitable volunteers excluded from gross income	1	2	2
Additional personal exemption for those housing displaced individuals	96	128	128
Total	**958**	**937**	**1,055**

Source: CRS analysis of data provided in U.S. Congress, Joint Committee on Taxation, *General Explanation of Tax Legislation Enacted in the 109th Congress*, committee print, 109th Cong., January 17, 2007, JCS-1-00, pp. 789-90.

Charitable Giving in 2005

Relief efforts following the December 2004 Indian Ocean tsunami, the August and September 2005 Gulf Cost Hurricanes, and the October 2005 Pakistan earthquake were aided by U.S. based charitable donations. It is estimated that giving for natural disaster relief in 2005 was $7.37 billion (or 2.8% of total giving, which was $260.28 billion). Individuals were responsible for $5.83 billion (79%) of the gifts. Among the individual contributions, $4.25 billion (73%) went to hurricane relief, $1.54 billion (26%) went to tsunami relief, and $40 million (1%) went to Pakistan earthquake relief. Corporate donors gave $936 million in 2005 (13% of total disaster giving). Much of the corporate giving was in the form of in-kind donations and services. **Table 3** summarizes giving to aid the victims of natural disasters in 2005.

Table 3. 2005 Natural-Disaster-Related Giving

billions of dollars

	Individuals	Corporations	Foundations	Total
Katrina	4.25	0.94	0.11	**5.30**
Tsunami	1.54	0.34	0.04	**1.92**
Earthquake	0.04	0.10	0.01	**0.15**
Total	**5.83**	**1.38**	**0.16**	**7.37**

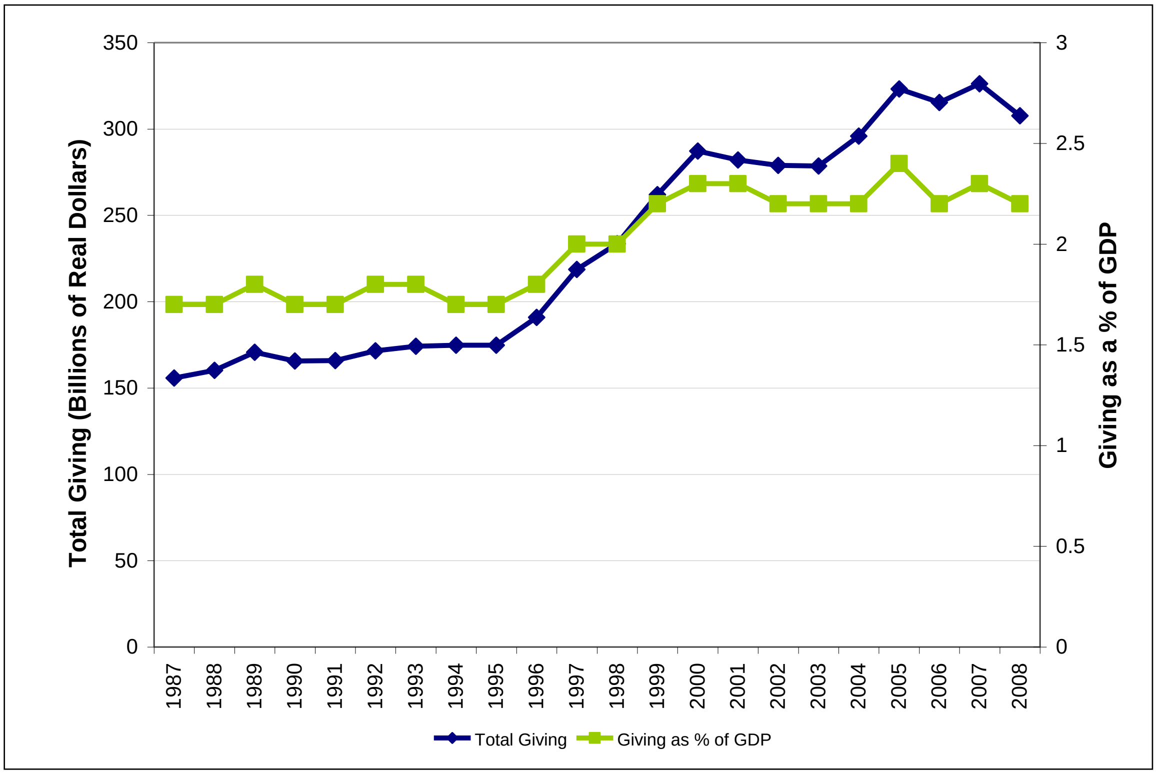
[18] A number of the charitable provisions enacted under KETRA were expanded under the Gulf Opportunity Zone Act of 2005 (P.L. 109-135) to apply to charitable contributions made to qualified organizations providing aid to victims of Hurricanes Rita and Wilma.

Source: Giving USA Foundation, *Giving USA 2006: The Annual Report on Philanthropy for the Year 2005* (Indianapolis, IN: Giving USA Foundation, 2006), pp. 57-65.

Donations following natural disasters was also concentrated among certain charitable sectors. More than half of the giving for hurricane victims went to human services charities. For tsunami related giving, 36% of contributions went to charities serving the international community, while 31% went to human services charities.[19]

Aggregate measures reflect increased giving in 2005. Overall, inflation adjusted giving increased by 9.2% between 2004 and 2005 (see **Figure 1**). Between 2005 and 2006 overall giving fell by 2.4%. Giving as a percentage of GDP was 2.4% in 2005, 0.2 percentage points higher than the 2004 level of 2.2%. After 2005, giving as a percentage of GDP has remained below 2005 levels (see **Figure 1**).

Figure 1. Trends in Giving: 1987 - 2008



Source: CRS calculations based on data from Giving USA Foundation, *Giving USA 2009: The Annual Report on Philanthropy for the Year 2008* (Indianapolis, IN: Giving USA Foundation, 2009).

Assessment of the HAITI Act

The accelerated deduction provision of the HAITI Act, like deductions for charitable contributions generally, reduces the net cost of contributing, and is intended to encourage donations to disaster relief agencies that provide assistance to victims of the earthquake in Haiti.

[19] Giving USA Foundation, *Giving USA 2006: The Annual Report on Philanthropy for the Year 2005* (Indianapolis, IN: Giving USA Foundation, 2006).

Like all tax benefits, the provision can be evaluated by assessing the impact on economic efficiency, equity, and complexity.

Economic Efficiency

The efficiency of the accelerated deduction depends on how much additional giving is induced by the provision, or the marginal impact of the program. The marginal impact of a tax break can be evaluated relative to the inframarginal impact. The inframarginal impact of a tax subsidy is the benefits given to individuals whose behavior is unchanged by the policy. In the case of the accelerated deduction, the inframarginal impact is the tax savings given to those who would have donated if the accelerated deduction had not been adopted. Efficient tax incentives are ones where the marginal impact is large relative to the inframarginal impact.

Since accelerated deductions reduce the price of charitable giving, empirical evidence on the price elasticity of charitable giving can provide insight regarding the expected marginal impacts. If charitable giving is price elastic, with a price elasticity greater than one, a $1 tax incentive would be expected to generate more than $1 in charitable giving.[20] If charitable giving is price inelastic, a $1 tax incentive would be expected to generate less than $1 in charitable giving. Empirical evidence suggests that the price elasticity for charitable giving is considerably less than one.[21] Since charitable contributions are relatively unresponsive to changes in the price of giving, the marginal impact of the accelerated deduction is likely to be small relative to the inframarginal impact. In general, theoretical models and empirical evidence suggest that tax benefits for charitable giving do not appear to significantly increase donations.[22]

[20] The price elasticity of charitable giving is the percentage change in giving divided by the percentage change in the price of giving, where the price of giving is (1-*t*), and *t* is the marginal tax rate. While the price elasticity is negative, it is quoted in absolute value.

[21] For a review of the literature see CRS Report R40518, *Charitable Contributions: The Itemized Deduction Cap and Other FY2010 Budget Options*, by Jane G. Gravelle and Donald J. Marples.

[22] Thomas L. Hungerford, "Tax Expenditures: Good, Bad, or Ugly?," *Tax Notes*, October 23, 2006, p. 329.

There are also efficiency concerns surrounding the impact of accelerating the charitable deduction on the timing of giving. The provision is said to be efficient if it causes charitable giving to aid organizations to increase, without crowding-out donations to other charitable organizations. If charitable giving for disaster relief crowds-out other forms of charitable giving, altering the distribution of charitable giving across organizations or across time, the provision may not be efficient. Empirical evidence using individual-level data from the 2004 tsunami suggests that tsunami donations given in 2005 did crowd-out future charitable giving.[23] Other evidence, discussed in the context of donor fatigue below, suggests that donations for disaster relief did not contemporaneously crowd-out charitable giving to other organizations.

Evaluating the efficiency of accelerating the charitable donations deduction involves understanding both the timing and the nature of the contributions. From a timing perspective, the accelerated deduction is designed to encourage giving in early 2010, by allowing taxpayers to claim the charitable contributions on their 2009 tax returns.[24] However, to the extent that these donations were made without an expectation of an accelerated deduction provision, they are inframarginal. In the 13 days following the earthquake in Haiti, $470 million was donated to U.S. nonprofits providing aid to victims (this compares to $580 million in the eight days following Hurricane Katrina and $163 million in the nine days following the Indian Ocean tsunami).[25] Corporate giving in the 72 hours following the earthquake topped $43 million.[26] This immediate outpouring of support was not likely the result of expected changes to the tax code. Nonetheless, itemizers who made deductions during this time will benefit from the accelerated deduction provision if enacted.

Text Message Donations and the 2010 Earthquake in Haiti

Donations made via text message make up a significant portion of early giving to earthquake victims in Haiti. By Friday, January 22, 2010, the American Red Cross raised $29 million of their total $171 million through their text "HAITI" to 90999 campaign. Mobile phone users wishing to donate $10 to the American Red Cross can text "HAITI" to 90999. Their $10 donation is added to their mobile phone bill which can be used at tax filing time as a receipt.

Donors making small donations to the victims of Haiti's earthquake may be enticed to donate by convenience, rather than by the tax code. Many text-message donors may also be non-itemizers. Approximately 17% of all donations made to the American Red Cross were made via text message in the 13 days following the earthquake. Even for text message donors that do itemize, the value of the accelerated deduction is relatively small (17 cents for a taxpayer in the 35% bracket), and it seems unlikely that the prospect of such a donation would be driving behavior.

The "Hope for Haiti" celebrity telethon, broadcast on a number of major television networks, was also responsible for generating a large portion of the charitable contributions for Haiti relief efforts. The "Hope for Haiti" telethon, which aired on Friday, January 22, 2010, had raised $58 million by Saturday, January 23, 2010. A similar telethon following the 2004 tsunami raised $18.3

[23] Sarah Brown, Mark N. Harris, and Karl Taylor, *Modeling Charitable Donations to an Unexpected Natural Disaster: Evidence from the U.S. Panel Study of Income Dynamics*, Institute for the Study of Labor (IZA), IZA DP No. 4424, Bonn, Germany, September 2009.

[24] The **Appendix** illustrates the amount of giving in the days following the earthquake in Haiti and compares the level of giving in Haiti to the levels of giving following Hurricane Katrina and the 2004 tsunami.

[25] Caroline Preston and Nicole Wallace, "Donations to Aid Haiti Exceed $470-Million, Chronicle Tally Finds," *The Chronicle of Philanthropy*, January 25, 2010.

[26] Chris Herring and Dana Mattioli, "Companies Send Aid to Haiti," *The Wall Street Journal*, January 19, 2010.

million.[27] It seems unlikely that most individuals donating through the telethon were doing so in response to tax incentives.

Congressional concern that hurricane-related giving may cause other forms of giving to fall (donor-fatigue) led to post-Katrina tax breaks for hurricane relief related charitable giving. The concept of donor fatigue rests on the notion that households set aside a fixed amount for charitable giving each year, and give until the funds are exhausted. Survey evidence following Hurricane Katrina suggests that donor fatigue did not cause donations to other charities to fall in 2005.[28] Given that disaster related giving was a relatively small part of overall giving in 2005 (less than 3%), it is unlikely that donor fatigue, if present, was large. Nonetheless, it is possible that donor fatigue was mitigated by Congressional action enhancing incentives for charitable contributions.

Equity

Provisions expanding the existing charitable deduction may raise equity concerns. First, only taxpayers who itemize deductions can take advantage of the accelerated deduction. Second, deductions violate vertical equity principles, as greater benefits accrue to higher income individuals.

The charitable contribution deduction can only be claimed by taxpayers who itemize deductions. In both 2006 and 2007, 35% of taxpayers itemized deductions.[29] Non-itemizing taxpayers claim the standard deduction ($5,700 for single filers in 2009). The logic behind the standard deduction is that it accounts for the tax-deductable activities of individuals choosing not to itemize deductions and simplifies tax compliance. As illustrated **Table 4**, the proportion of taxpayers who itemize increases for higher income taxpayers. The benefits associated with the charitable contribution deduction are also skewed towards higher income taxpayers. Just over 13% of taxpayers have an AGI between $100,000 and $200,000. Of these taxpayers, 81% itemize deductions. Nearly 25% of tax expenditures associated with the charitable deduction go to the $100,000 to $200,000 AGI group.

Table 4. Distribution of Taxpayers, Itemizers, and Charitable Tax Deduction Benefits by Income

2008

Adjusted Gross Income (AGI) Group	% of All Returns in AGI Group	% in AGI Group that Itemize	% Charitable Tax Expenditure Benefits Received by AGI Group
Below $10,000	17.1%	2.5%	0.0%
$10,000 - $20,000	13.4%	5.7%	0.2%
$20,000 - $30,000	10.1%	12.7%	0.8%
$30,000 - $40,000	9.2%	21.5%	1.7%
$40,000 - $50,000	8.3%	32.9%	2.5%

27 Caroline Preston, "Haiti Telethon Raises More Than $58-Million," *The Chronicle of Philanthropy*, January 25, 2010.

28 The Conference Board, "Consumer Confidence Survey," April, 2006.

29 Internal Revenue Service (IRS), Statistics of Income (SOI), Individual Income Tax Returns Preliminary Data, 2007. Available at http://www.irs.gov/pub/irs-soi/09sprintaxreturn.pdf.

Adjusted Gross Income (AGI) Group	% of All Returns in AGI Group	% in AGI Group that Itemize	% Charitable Tax Expenditure Benefits Received by AGI Group
$50,000 - $75,000	15.0%	45.2%	8.8%
$75,000 - $100,000	10.0%	59.8%	9.1%
$100,000 - $200,000	13.2%	80.9%	24.8%
Above $200,000	3.7%	94.0%	52.1%

Source: CRS calculations using data from U.S. Congress, Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2009 - 2013*, committee print, prepared by Joint Committee on Taxation, 111th Cong., 2nd sess., January 11, 2010, JCS-1-10.

That charitable contributions violate vertical equity principles is a consequence of a progressive tax system. The value of a deduction to a taxpayer is based on their marginal tax rate. Take, for example, two taxpayers both donating $2,000 to victims of natural disasters. One taxpayer is in the 10% income tax bracket, while the other is in the 35% income tax bracket. Assuming both taxpayers itemize deductions, the value of the deduction to the first taxpayer is $200 while the value of the deduction to the second taxpayer is $700. The taxpayer with the higher income in the 35% tax bracket receives a larger tax benefit from the deduction than the lower income taxpayer.

Complexity

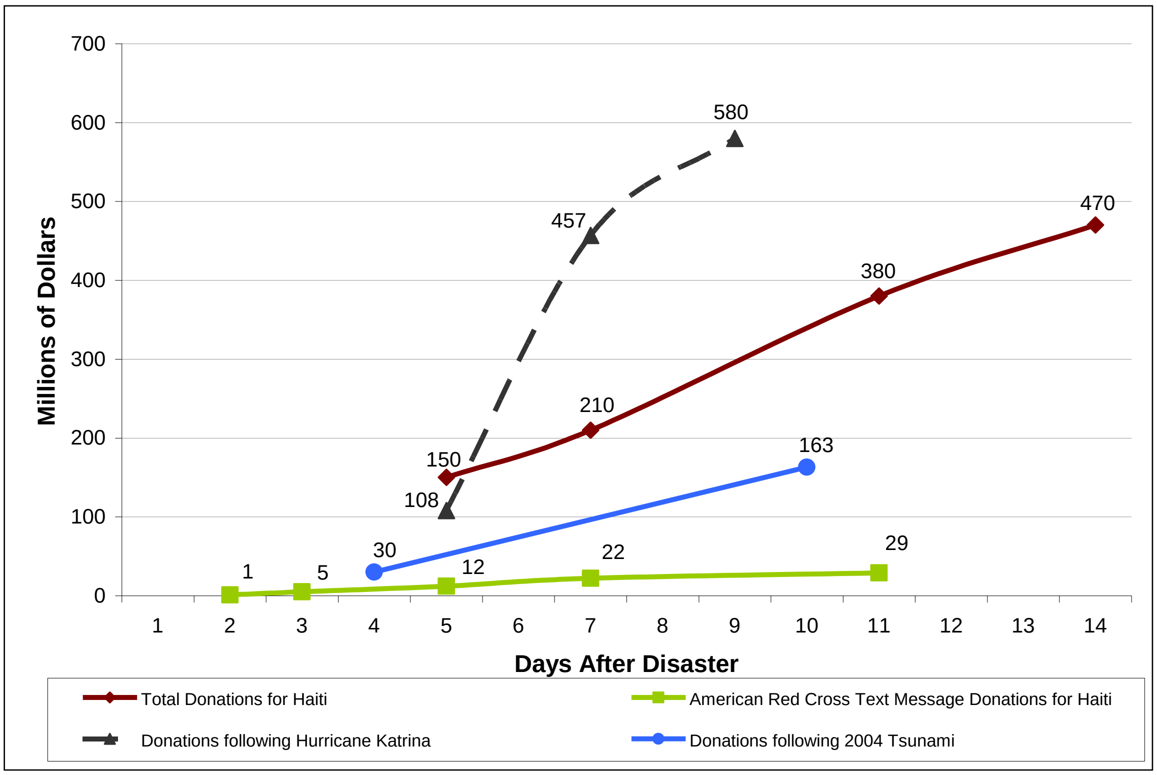
Accelerating charitable deductions adds complexity to the tax code and increases administrative burdens. Taxpayers have the option of claiming earthquake related charitable contributions on either their 2009 or 2010 income taxes. Since the 2009 forms have been printed and mailed to taxpayers, some taxpayers may not be aware of this change or understand the option to accelerate deductions.

It is also possible that accelerating charitable contributions increases the monitoring burden on the Internal Revenue Service. Since taxpayers would be allowed to claim earthquake related charitable contributions in either 2009 or 2010, there may be an increased monitoring burden on the IRS to ensure that deductions are only claimed in one year, and not both. In practice, it is likely that the tax revenue loss associated with taxpayers accidentally or intentionally claiming contributions in both 2009 and 2010 is less than the cost to the IRS of monitoring contributions.

Appendix. Giving Following Natural Disasters

Figure A-1 presents trends in charitable giving in the days following recent natural disasters. The immediate charitable giving response to aid the victims of the earthquake in Haiti was larger than the charitable giving response following the 2004 Indian Ocean tsunami or Hurricane Katrina in 2005. In the five days following the earthquake in Haiti, charitable donations were estimated to be $150 million. This compares to $108 million in the five days following Hurricane Katrina and $30 million in the four days following the tsunami. Charitable donations for the victims of the earthquake in Haiti have continued to outpace donations following the tsunami but now lag behind the pace of donations following Hurricane Katrina.

Figure A-1. Donations in the Days Following Natural Disasters



Source: CRS analysis using data reported by the Chronicle of Philanthropy, http://www.philanthropy.com.

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